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SUSPENSE ______________
Date

Remarks

to David Low

STAT

Executive Secretary
22 Jul 85
Date

ON FILE COMMERCE, USTR, NSC
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Trade Strategy

THE WHITE HOUSE

WASHINGTON

July 19, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER RBP

SUBJECT: Agenda and Paper for the July 23 Meeting

The agenda and paper for the July 23 meeting of the Economic Policy Council are attached. The meeting is scheduled for 11:30 a.m. in the Roosevelt Room.

The Council will consider the Administration's overall trade policy strategy. The Office of the U.S. Trade Representative and the Department of Commerce have prepared a paper entitled "International Trade and Economic Policy Initiative" to serve as a starting point for the discussion. A copy is attached.

Goals. No strategy

Attachment

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THE WHITE HOUSE

WASHINGTON

ECONOMIC POLICY COUNCIL

July 23, 1985

11:30 a.m.

The Roosevelt Room

AGENDA

1. Trade Policy Strategy

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INTERNATIONAL TRADE AND ECONOMIC POLICY INITIATIVE

Recommendation

The Administration must promptly take the initiative by announcing and acting on a coordinated international trade and economic policy. The policy must combine steps to create fair trading conditions over the next few years with immediate (and largely temporary) steps to preserve U.S. competitiveness now. It should be announced in a Presidential address following EPC review.

Background

U.S. economic activities are becoming more integrated with those of the global economy. In 1985, U.S. exports and imports of goods and services amount to 21 percent of our gross national product. This compares to 13 percent in 1970 and only 9 percent in 1950.

This trend toward a greater role for international trade in our economy is irreversible.

Our dependence on foreign markets for our products, and the challenge of foreign competition in our domestic market, make it imperative that we continue to foster a strong and internationally competitive economy and a more open global system for international trade and capital flows.

Our recent and prospective trade deficits of as much as $150 billion dollars is unsustainable. In the starkest terms it means we are consuming more than we produce, and paying for it by mortgaging our future, surrendering ownership of our nation's productive assets, and transferring U.S. jobs abroad. In doing so we have this year crossed over from creditor to debtor nation status for the first time in over 70 years.

U.S. trade policy must be based on a realistic appraisal of the position of the United States in the world economy. Clearly the nation remains strong and vibrant, the economic leader of the free world with political and military leadership based on that strength. No other country can replace us in this role.

On the other hand, the unnatural world preeminence of almost all U.S. industries that characterized the 1950's and 1960's has diminished, as we have used our economic resources and huge market to help the industrialized free world and emerging nations reach for and gain economic self-reliance.

These nations now must join the United States in world economic statesmanship, by relinquishing some share of one-way dependence on the benefits of open U.S. markets, and by adopting policies that aid less-developed countries as they too seek a place in the economic sunlight.

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Trade Policy

The Administration enunciated its basic trade policy in its July 8, 1981 statement. We reaffirm our commitment to free and fair trade, based on comparative advantage and open markets, as the best way to ensure efficient allocation of the world's supply of material and human resources.

Because free and fair trade benefits America so greatly, we reject a policy of protectionism. Protectionism would stimulate inflation, encourage inefficient production methods, lower productivity, raise production costs for industries competing in overseas markets, shrink markets abroad for U.S. products (as foreign countries lose income from sales to the United States), invite retaliation against U.S. exports, cost U.S. jobs and generally lower our standard of living.

Protectionist policies lack any merit for an economy in which international trade plays an increasingly important role.

At the same time, we recognize that present trading conditions are in many respects neither free nor fair, and that the U.S. cannot unilaterally make them so. We must live and manage in the world as it is while we try to improve it.

Our trade policy must therefore combine concerted efforts with our trading partners to attain fair competitive conditions in the world trading community over the next few years with a willingness to take short-term steps, as necessary, to ensure fair competitive conditions for U.S. producers now.

Proposed Action Program

The elements of an action program to implement our updated trade policy should include the following:

1. Ensure Fair Trade

   Since free trade is unacceptable if the terms are unfair, we will continue and accelerate our efforts to ensure that our trading partners play by agreed rules. We will:

   -- Continue to aggressively enforce our trade laws and agreements. (Recent examples: retaliation on citrus under Section 301, near-record number of AD/CVD cases.) In addition, we will take retaliatory action under Section 301 where national trade policy interest dictates.

   -- Act to equalize market opportunities. Use the expanded authority of the Trade and Tariff Act of 1984 to limit our trading partners' unrestricted access to the

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U.S. market until we have satisfactory access to theirs.

-- Support the market-opening objectives of equitable access legislation, e.g., those in the Danforth telecommunications bill. Work with the Congress on specific provisions.

-- Counter proven cases of unfair foreign industrial targeting.

-- Increase efforts to protect intellectual and industrial property rights.

-- Selectively match our competitors' assistance to exports, while pressing for international agreement eliminating subsidized export financing.

  - Agriculture: continue to subsidize agricultural exports to counter foreign subsidies that are eroding our traditional markets.

  - Eximbank: seek funding to match foreign grants of mixed credits outside the OECD consensus.

2. Promote U.S. Exports

Government should assist exports by creating a climate in which U.S. industry can make the most of its potential competitive strength. We should:

-- Urge U.S. companies to view themselves as competitors in a world market.

-- Intensify the federal government's export promotion activities.

-- Take advantage of President's Export Council and the ISAC's as a vehicle to communicate with and encourage U.S. industries with unrealized export potential.

The world requires a comprehensive, fair, and disciplined trading system on which economic planning of participants can be based. We should begin the new GATT round, emphasizing agenda items sucn as:

-- Dispute settlement

-- Agricultural and other subsidies

-- Elimination of NTBs

-- Specific high-tech problems

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-- Intellectual property protection and the counterfeiting code

-- Safeguards

-- Trade-distorting investment practices

To bridge the time until a new multilateral trading system can be in place we should, within the existing GATT framework, consider bilateral, regional, and plurilateral agreements that can advance free and fair trade, and stimulate non-participants to join in the multilateral process.

We will avoid actions that invite foreign foreign counter-measures that further impede U.S. exports.

3. Manage Exceptions to Free Trade Wisely

It is recognized internationally that nations may find it necessary to take actions that do not conform to free trade principles. When such steps are necessary to protect U.S. interests we will:

-- Provide temporary relief from import injury for U.S. industries that can be competitive under fair conditions and that are restructuring, if necessary, to enhance competitiveness.

-- Avoid protection of industries that would not be competitive even under fair conditions.

-- Work with labor and industry to enhance worker retraining and movement into competitive industries.

-- Respond to foreign policies that threaten industries that are essential to our long-term national security and international competitiveness.

-- Vigorously enforce our export control laws to prevent the leakage of sensitive and critical technology of military significance to potential enemies. In doing so, recognize the realities of foreign availability and the dependence of future technical advances on healthy, creative U.S. suppliers and free world interchange of scientific information.

4. Pursue Trade-Supporting Fiscal, Monetary and Regulatory Policies

We must address the strength of the dollar and other macro-economic and regulatory contributors to our trade deficit. To do so we should:

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-- Work with Congress for effective budget expenditure and deficit reduction.

-- Encourage our trade partners to pursue appropriate policies to accelerate their economic growth in order to contribute to a gradual weakening of the dollar and enhanced U.S. exports.

-- Organize an international monetary meeting to follow up on the G-10 report on international monetary reform and exchange rates.

-- Seek prompt and substantial moves by Japan to increase imports and to internationalize the yen.

-- Work with industrialized countries and multilateral institutions to ease the debt burdens of developing countries and ensure their access to export markets.

-- Support tax policies that enhance U.S. industrial competitiveness.

-- Review and, where appropriate, amend antitrust laws and regulations that impede international competitiveness of U.S. industries.

-- Take steps to see their recent deregulation of U.S. firms does not put them or their suppliers at a competitive disadvantage by permitting uneven access for foreign companies.

-- Look at all present and proposed government actions and policies in light of their effect on the international competitiveness of U.S. industry.

July 18, 1985
Department of Commerce
U.S. Trade Representative

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